

Message Text

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FOLLOWING REPEAT STATE 206993 SENT ACTION BRUSSELS

SEP 24TH. QUOTE:

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FOLLOWING REPEAT STATE 206993 ACTION EC BRUSSELS INFO BONN COPENHAGEN
DUBLIN LONDON LUXEMBOURG PARIS ROME TOKYO THE HAGUE 19TH SEPTEMBER

QUOTE

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E.O. 11652: N/A

TAGS: EFIN,

SUBJECT: EXPORT CREDIT MEETING, SEPTEMBER 10-11.

1. SUMMARY: THE U.S. MET WITH THE EC MEMBER STATES, THE
EC COMMISSION AND JAPAN IN BRUSSELS TO DISCUSS A PROPOSED
GENTLEMEN'S AGREEMENT TO REGULATE THE TERMS AND CONDITIONS
OF GOVERNMENT-SUPPORTED EXPORT CREDITS. THIS WAS ONE OF
A SERIES OF MEETINGS ON THIS SUBJECT. ALTHOUGH NO AGREEMENT
WAS REACHED, THE DIFFERENCES BETWEEN THE PARTICIPANTS WERE
NARROWED SOMEWHAT. THE PARTICIPANTS WANT TO PURSUE THE
NEGOTIATIONS BY MEETING IN THE NEAR FUTURE. WE ARE HOPEFUL
THAT AN AGREEMENT WILL BE EVENTUALLY REACHED. UNDER
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SECRETARY BENNETT OF TREASURY AND CHAIRMAN CASEY OF

EXIMBANK WERE THE PRINCIPAL U.S. PARTICIPANTS. END SUMMARY

2. THE U.S., JAPAN, AND THE NINE MEMBER STATES AND THE COMMISSION OF THE EC PARTICIPATED IN THE MEETING TO DISCUSS THE GENTLEMEN'S AGREEMENT. THE OBJECTIVE OF THIS AGREEMENT IS TO REDUCE THE DISPARITY BETWEEN THE TERMS OF OFFICIAL CREDITS AND THE TERMS AVAILABLE IN PRIVATE MARKETS. NO AGREEMENT WAS REACHED BUT THERE WAS SOME MOVEMENT TOWARDS HIGHER INTEREST RATES AND SHORTER TERMS FOR OFFICIAL CREDITS. WE BELIEVE SUFFICIENT PROGRESS WAS MADE TO JUSTIFY ANOTHER MEETING.

3. THE U.S. PRESENTED A PACKAGE PROPOSAL WHICH WAS DEVELOPED FROM THE DISCUSSIONS OF A JULY MEETING OF THE SAME COUNTRIES PLUS CANADA IN WASHINGTON. THE FOLLOWING ARE THE MAIN POINTS OF THIS PACKAGE ALONG WITH THE GENERAL

REACTION OF THE OTHER PARTICIPANTS:

(A) MINIMUM INTEREST RATES: THE U.S. PROPOSED MINIMUM INTEREST RATES OF 8 PERCENT ON OFFICIAL EXPORT CREDITS WITH A MAXIMUM LENGTH OF MORE THAN TWO YEARS. WE ALSO

PROPOSED A RATE OF 9 PERCENT ON THE AVERAGE EFFECTIVE COST DURING A CALENDAR YEAR. THIS LATTER RATE, BUT NOT THE FORMER, WOULD INCLUDE BANK CHARGES AND CREDIT INSURANCE FEES. THE JAPANESE RESISTED ANY MINIMUM ABOVE 7 PERCENT BUT FINALLY AGREED ON 7.5 PERCENT FOR OFFICIAL EXPORT CREDITS AS LONG AS AN EXCEPTION FOR LARGE PROJECTS WAS INCLUDED. THE GOJ REJECTED ANY MINIMUM ON THE AVERAGE EFFECTIVE COST. IN THE INTEREST OF COMPROMISE THE U.S. PROPOSED LOWERING THE MINIMUM ON THE AVERAGE EFFECTIVE COST TO 8.5 PERCENT. THE EC COUNTRIES, OTHER THAN FRANCE, SEEMED TO AGREE WITH THE U.S. ON INTEREST RATES BUT WANTED AGREEMENT ON THE ENTIRE PACKAGE BEFORE COMMITMENT. THE FRENCH DID NOT APPEAR PREPARED TO SET A MINIMUM ABOVE 7.5 PERCENT AT THE MEETING.

(B) MAXIMUM LENGTH OF CREDIT: THE EC PROPOSED A MAXIMUM OF 10 YEARS FOR LOW PER CAPITA GNP COUNTRIES AND 8.5 YEARS LIMITED OFFICIAL USE

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FOR OTHER COUNTRIES, EXCEPT FOR CREDITS MEETING CERTAIN CONDITIONS. THE U.S. AND JAPAN GENERALLY AGREED TO THESE TERMS BUT THERE WAS A DIVERGENCE OF VIEWS REGARDING THE EXCEPTIONS.

(C) LEASING: THE U.S. BELIEVED THAT GOVERNMENTS SHOULD BE REQUIRED TO ABIDE BY THE MINIMUM INTEREST RATE AND MAXIMUM LENGTH OF CREDIT WHEN PROVIDING SUPPORT TO LEASE

EQUIPMENT OUTSIDE OF THEIR NATIONAL BORDERS. THE EC HAS SOME CONCERN OVER THIS CONDITION BUT IS PREPARED TO ACCEPT GENERAL RESTRICTIONS ON LEASING.

(D) LOCAL COST FINANCING: THE U.S. SUGGESTED THAT THIS TYPE OF SUPPORT COMBINED WITH OTHER FORMS OF EXPORT CREDIT SHOULD NOT EXCEED 100 PERCENT OF THE VALUE OF THE IMPORT PORTION OF A CONTRACT. LOCAL COST FINANCING SHOULD BE IN ACCORDANCE WITH THE MINIMUM INTEREST RATE AND MAXIMUM LENGTH OF CREDIT OF THE AGREEMENT. THE EC AGREED, BUT JAPAN WANTED TO DEFER THIS SUBJECT TO THE OECD WHICH IS CONSIDERING A SIMILAR PROPOSAL.

4. THE U.S. FIRST PROPOSED THAT PROJECTS INVOLVING OVER \$ 25 MILLION IN EXPORT CREDITS BE EXEMPTED FROM THE TERM LIMITATIONS OF THE AGREEMENT WITH NO MAXIMUM TERM SPECIFIED. HOWEVER, IN THE INTEREST OF REACHING AN AGREEMENT, THE U.S. LATER PROPOSED THAT PROJECTS INVOLVING IMPORTS FROM ANY SOURCE OF AT LEAST \$ 60 MILLION COULD RECEIVE A MAXIMUM LENGTH UP TO 4 YEARS IN EXCESS OF THE MAXIMUM MATURITIES CONTAINED IN PARA. 2B ABOVE. THE JAPANESE PROPOSED THAT PROJECTS INVOLVING IMPORTS OF \$ 100 MILLION OR MORE WOULD HAVE A MAXIMUM MATURITY OF 15 YEARS. THE EC WANTED NO EXCEPTIONS REGARDING LARGE PROJECTS BUT SEEMED TO BE WILLING TO ACCEPT EXCEPTIONS FOR VERY LARGE PROJECTS BUT WITH THE CUT-OFF HIGHER THAN \$ 60 MILLION AND WITH A MAXIMUM MATURITY OF LESS THAN 15 YEARS.

5. THE U.S. WOULD ALSO SUPPORT EXCEPTIONS FOR:
EXISTING COMMITMENTS; MATCHING TERMS OFFERED BY NON-PARTICIPANTS IN THE AGREEMENT; FINANCING OF PRODUCTS COVERED BY THE EXISTING OECD SECTORAL AGREEMENT INCLUDING LIMITED OFFICIAL USE

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NUCLEAR POWER PLANTS OR AIRCRAFT WHICH WOULD BE COVERED BY AN OECD SECTORAL AGREEMENT NOW UNDER NEGOTIATION; PROVIDING OFFICIAL DEVELOPMENT ASSISTANCE WHEN THE INTEREST RATE DOES NOT EXCEED 5 PERCENT AND THE TERM IS GREATER THAN 16 YEARS FOR COMMITMENTS PRIOR TO MARCH 31, 1975 AND 4 PERCENT AND 20 YEARS RESPECTIVELY, FOR COMMITMENTS THEREAFTER. THE REPAYMENTS SHOULD BE REASONABLY DISTRIBUTED OVER THE LIFE OF THE CREDIT. AS ITALY AND FRANCE USE MIXED CREDITS AS A FORM OF FINANCIAL AID, THEY FOUND THE PROVISIONS REGARDING AID TO BE TOO RESTRICTIVE.

6. THE U.S. TOOK NOTE OF THE PROGRESS TOWARD AN AGREEMENT AND EXPRESSED THE HOPE THAT THE PARTICIPANTS WOULD NOT OFFER CREDITS WHICH CONFLICT WITH THE SPIRIT OF THE

AGREEMENT DURING THE COMING WEEKS. SUBSTANTIAL
DEROGATIONS FROM THE PROPOSED CONDITIONS WOULD MAKE IT
DIFFICULT TO REACH A FINAL AGREEMENT.

7. DESPITE THE FACT THAT A GENTLEMEN'S AGREEMENT WAS NOT
CONCLUDED AT THIS MEETING, REPRESENTATIVES OF THE EC AND
JAPAN AGREED THAT, IN THE FRAMEWORK OF CONTINUING
DISCUSSIONS, THEY WOULD AS OF NOW RECOMMEND THEIR
GOVERNMENTS SET AN OBJECTIVE OF A MINIMUM INTEREST RATE OF
7.5 PERCENT. KISSINGER UNQUOTE INGERSOLL
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